



## Weekly Update

21-August-2025

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- Rotation turns into weakness
- The only narrative that sticks is AI fatigue
- But it is really just sloppy August trading
- The Fed will likely cut, but it will note the underlying strength of the economy at the same time
- Sector rotation in a chart
- Is global trade falling off a cliff? No
- Right on cue (about tariffs and shifting trade dynamics)
- Credit Card data is still slowly improving
- Curveball on Inflation? Not really
- Retail Sales are still steaming along
- Existing homes are more expensive than New homes. First time!
- Quick Hits
- Where did all the crypto money go?
- Chart Crime of the week

|          | Last     | 5d %  | YTD %  | 1yr %  |
|----------|----------|-------|--------|--------|
| S&P 500  | 6,370    | -1.5% | 9.0%   | 15.2%  |
| QQQ      | \$563.28 | -2.9% | 10.5%  | 17.9%  |
| US 10 YR | 4.33%    | 4.25% | 4.58%  | 3.86%  |
| USD/DXY  | 98.6     | 97.8  | 108.5  | 101.5  |
| VIX      | 16.6%    | 14.5% | 17.4%  | 17.6%  |
| Oil      | \$63.47  | 1.1%  | -11.9% | -11.7% |

\*10yr, DXY, and VIX are levels not changes

\*\* Oil is front month futures, beware

The recent rotations underneath the surface of the market have finally manifested themselves in broad index weakness. There are still wide discrepancies in sector and factor behavior. But the losing moves are now large enough to overwhelm the positive side of the index ledger. There are a few narratives trying to explain this recent reversal of momentum (which is chief among the market moves causing the weakness...which is a bit tautological if you ask us...). The hotter than expected inflation in Producer Prices (PPI, wholesale or input prices) cooled the optimism from the softer than expected increase in Consumer prices (CPI). And this played right into the "feeling" that Fed Chair Powell was not going to be as dovish as the futures market was pricing. This pricing has moved from the 100% chance (ha!) of a cut to about 74%. Some Earnings pessimism has crept

into the market after the gangbusters quarter (not done yet, but it has been great). Looking at Walmart, the strong earnings were overshadowed by mild caution that tariffs could pinch some margins. As usual, there has been all sorts of Trump news: Peace in (the) Ukraine, no peace, firing Fed members, taking equity stakes, whatever. Perhaps the most troubling narrative is that the AI trade has hit a wall.

As Mova Lisa Vito once said, these explanations “do not hold water.” We think Powell comes out and admits the data has changed (he has been receiving some criticism lately for just looking at data from the past and not extrapolating into the future...other than for tariffs which has proved incorrect so far). But it is not just Powell. According to the minutes from the last FOMC (rate setting) meeting, a majority of the Fed thought there were more risks to higher inflation than there were to lower Employment. The recent data tells us the exact opposite (the CPI is far more important than the volatile PPI). We think it will be easier to admit your mistake when you are not the only one to have made it (notwithstanding Goolsbee’s comments, see below). On Walmart, the company stated that shopping trends (and the fledgling advertising business) were and remain strong, and the company revised guidance higher despite the mild tariff impact. Geopolitically, the American media’s idea of peace might be different than that of the Poles, Czechs, Germans, etc. And the media is champing at the bit to bring out the Trump tyrant tags when it comes to his idea to take equity stakes in semi-conductor companies in exchange for support (grants, contracts, etc). We do not like the idea of Trump inserting the government into these companies...the fact that Bernie Sanders supports the plan speaks volumes. But we hardly think it rises to anything more than Trump communicating poorly (as usual).

➤ AI worries all over again

Ultimately, we think the AI worries are what has rattled the market a little bit. Here are a few stories:

Coreweave, the relatively new data center upstart that was briefly a darling, missed on earnings as insiders rushed to sell stock.

MIT published a study saying 95% of corporate America has yet to see positive returns on AI investments. This just about fits our typical view of academic research (monetization is just starting to happen, so profitability is around that corner).

Meta is freezing hiring after recently onboarding about 50 programmers (with rumored pay packages for as much as \$100mm for some individuals). This reminds us of when Meta first changed its name and went on a massive spending spree to create the “metaverse.” This qualified as one of the dumbest name changes and strategic missteps in corporate history (New Coke pales in comparison). But to Zuck’s credit, he realized his mistake and pivoted back to sanity (“the year of efficiency”). We are not sure Meta slowing its AI spending compares directly, but it does rhyme a bit. Of course, the company is denying this story...but where there is smoke there is usually fire (which we are not saying is a bad thing, it was bound to happen).

Sam Altman, the OpenAI founder, commented that AI is probably in a bubble. His profitless \$500b company might be the epicenter of this bubble.

Maybe the most ominous story is that more companies are turning to debt to finance their AI projects. Vantage Data Centers is looking to borrow \$22b for its soon-to-be 1200-acre campus in Texas. \$3b of the \$25b total financing will be through equity. We have discussed how Musk’s xAI is using some debt to build out its Memphis facility. Oracle is using Blue Owl to borrow money for its \$15b joint project with OpenAI. And Meta has recently announced it is veering into debt financing. None of these stories are worrisome in themselves. But one of the foundational reasons for believing in AI was that the richest companies in the world were using their cash flows to fund their projects (unlike the massive amounts of debt used to fuel the dot.com fiber buildout). But most

believe the runway after debt first starts to be used is 12-18 months at a minimum. So we should get more runway before signs of fatigue take hold.

Lofty valuations for much of this group does not exactly provide the comfort needed during stress. It is no wonder that some light August trading has tilted the boat. We are using the rotational weakness to slowly add to core positions.

➤ The case for the Fed to dig in its heels

Chicago Fed President Goolsbee highlighted that the Fed is not overly focused on the headline monthly payrolls number (he said not to “over-index” this data). He said the proper way to analyze the business cycle is to look at the hiring rate, layoff rate, the job openings rate, and the unemployment rate. We kinda get what he means...rate of change data is always more useful than nominal numbers.

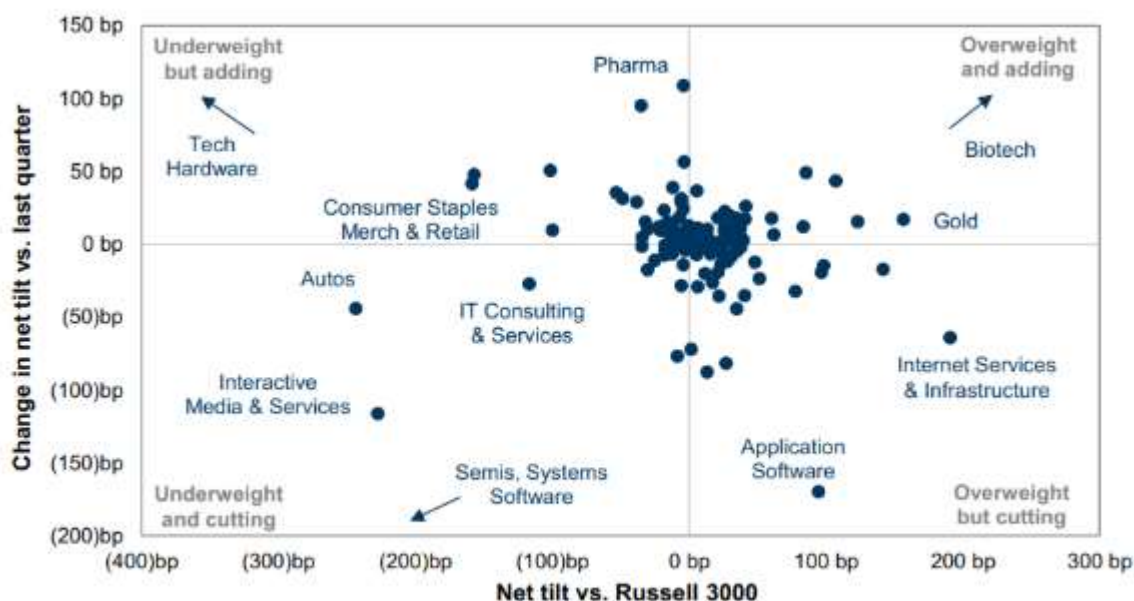
Others have pointed to Aggregate Payrolls. This is another way to look at our “not hiring – not firing” dynamic. Basically, if people are making more money and working longer hours, this has the same contribution to GDP as more workers being hired at lower wages and for shorter hours.

As usual, the truth/reality lies somewhere in the middle. We think monetary policy has been overly restrictive for Main Street (surely not Wall Street). But the economy is still moderately strong and gaining a bit of steam. If the Fed had not said their intent was to “normalize” interest rates to a lower level, we do not think the financial markets would be on the edge of their seats.

Goolsbee summed up his comments with a quote from the Smiths, “these things take time.”

➤ Sector rotation in a chart

Here is a nifty chart from Goldman showing the positioning and recent direction of trading.

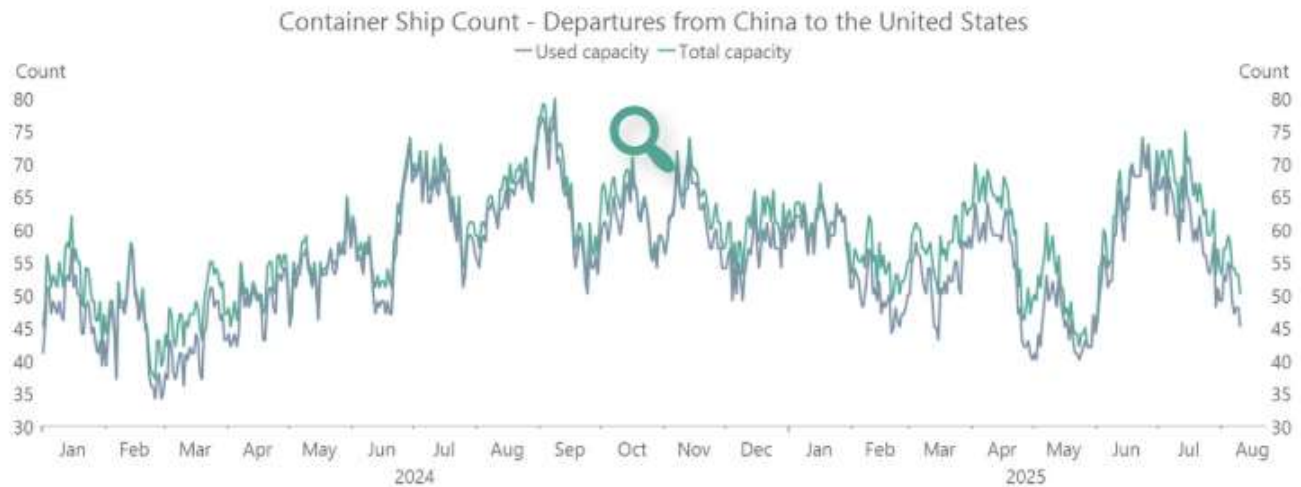


➤ Is global trade falling off a cliff? No

This alarmist chart made the rounds. What this misses is that shipments from China to other countries are increasing. Global trade is simply shifting. Americans are proving they have enough cheap Chinese junk.

APOLLO

### Container ship departures from China to the US are collapsing



- Right on cue (about tariffs and shifting trade dynamics)

The WSJ ran a story detailing what it calls a “phenomenon” that “has puzzled economists.” Of course, they are talking about tariffs and why they haven’t increased inflation substantially. The article cites a few different studies. Barclays drops the bombshell that we (US companies and consumers collectively) have bought less junk from China! JP Morgan says importers have switched to countries with lower tariffs. Yale even gets in on the act. One of its “policy research centers” estimates that the average effective tariff rate at 18.6%. But the report quietly throws in an aside that “the real average rate companies actually pay has been lower.”

- Credit Card data is still slowly improving

Here is the July credit card data. On average, Delinquencies edged up from 2.12% to 2.14%. But this outperformed the typical increase in July. Charge-offs declined from 3.14% to 2.97%. Loan growth (not in this table) increased modestly which was also better than the seasonal expectation.

|                  |         |                         | 2025         |              |              |                 | 2024         | 2019         | Change, July '19 to |
|------------------|---------|-------------------------|--------------|--------------|--------------|-----------------|--------------|--------------|---------------------|
| Company          | Ticker  | Type                    | July         | June         | May          | 3-month average | July         | July         | July                |
| Capital One*     | [[COF]] | delinquency             | 3.67%        | 3.60%        | 3.85%        | 3.71%           | 4.28%        | 3.49%        | 0.18%               |
|                  |         | charge-off              | 4.83%        | 4.96%        | 5.57%        | 5.12%           | 5.79%        | 4.25%        | 0.58%               |
| American Express | [[AXP]] | delinquency             | 1.3%         | 1.3%         | 1.3%         | 1.30%           | 1.3%         | 1.4%         | -0.10%              |
|                  |         | charge-off              | 2.0%         | 2.1%         | 2.1%         | 2.07%           | 2.1%         | 2.2%         | -0.20%              |
| JPMorgan         | [[JPM]] | delinquency             | 0.86%        | 0.84%        | 0.85%        | 0.85%           | 0.83%        | 1.15%        | -0.29%              |
|                  |         | charge-off              | 1.54%        | 1.69%        | 1.84%        | 1.69%           | 1.51%        | 2.21%        | -0.67%              |
| Synchrony        | [[SYF]] | delinquency             | 4.2%         | 4.2%         | 4.2%         | 4.2%            | 4.6%         | 4.1%         | 0.10%               |
|                  |         | adjusted charge-off     | 5.1%         | 5.7%         | 5.2%         | 5.33%           | 6.3%         | 5.4%         | -0.30%              |
| Bread Financial  | [[BFH]] | delinquency             | 5.8%         | 5.7%         | 5.7%         | 5.73%           | 6.2%         | 5.5%         | 0.30%               |
|                  |         | charge-off              | 7.6%         | 7.8%         | 8.0%         | 7.8%            | 8.0%         | 5.7%         | 1.90%               |
| Citigroup        | [[C]]   | delinquency             | 1.42%        | 1.38%        | 1.39%        | 1.40%           | 1.44%        | 1.53%        | -0.11%              |
|                  |         | charge-off              | 2.07%        | 2.12%        | 2.33%        | 2.17%           | 2.59%        | 2.91%        | -0.84%              |
| Bank of America  | [[BAC]] | delinquency             | 1.37%        | 1.38%        | 1.37%        | 1.37%           | 1.42%        | 1.57%        | -0.20%              |
|                  |         | charge-off              | 2.25%        | 2.26%        | 2.44%        | 2.32%           | 2.36%        | 2.49%        | -0.24%              |
|                  |         | <b>avg. delinquency</b> | <b>2.66%</b> | <b>2.63%</b> | <b>2.33%</b> | <b>2.54%</b>    | <b>2.87%</b> | <b>2.68%</b> | -0.02%              |
|                  |         | <b>Avg.charge-off</b>   | <b>3.63%</b> | <b>3.80%</b> | <b>3.93%</b> | <b>3.79%</b>    | <b>4.09%</b> | <b>3.59%</b> | 0.03%               |
|                  |         | <b>delinquency ex-f</b> | <b>2.14%</b> | <b>2.12%</b> | <b>2.16%</b> | <b>2.14%</b>    | <b>2.31%</b> | <b>2.21%</b> | -0.07%              |
|                  |         | <b>charge-off ex-f</b>  | <b>2.97%</b> | <b>3.14%</b> | <b>3.25%</b> | <b>3.12%</b>    | <b>3.44%</b> | <b>3.24%</b> | -0.28%              |

\*Capital One data includes Discover starting in June 2025; prior periods' data reflect Capital One card performance before its acquisition of Discover.

➤ Curveball on Inflation? Not really

Producer Prices in July shocked to the upside with a +0.9% increase vs 0% in June and +0.2% expected. The “Core” also increased +0.9%. After stripping out “Trade Services,” wholesale inflation (PPI) is a bit tamer at +0.6%. The experts say the Fed watches the PPI because it mechanically feeds into the PCE (vs the CPI). But the Fed was cutting rates last year when the annualized PPI was about the same as it is now. Also, the increase in input prices is skewed more towards Services and not Goods. That is a weird phenomenon given tariffs. Ultimately, this is the most we have ever written about (or thought about) PPI. It is a noisy and volatile data point. We are not reading too much into this.

U-Michigan’s Inflation Expectations moved higher. The 1-year is 4.9% up from 4.5%. The 5-year is 3.9% up from 3.4%. This data is still overly politicized.

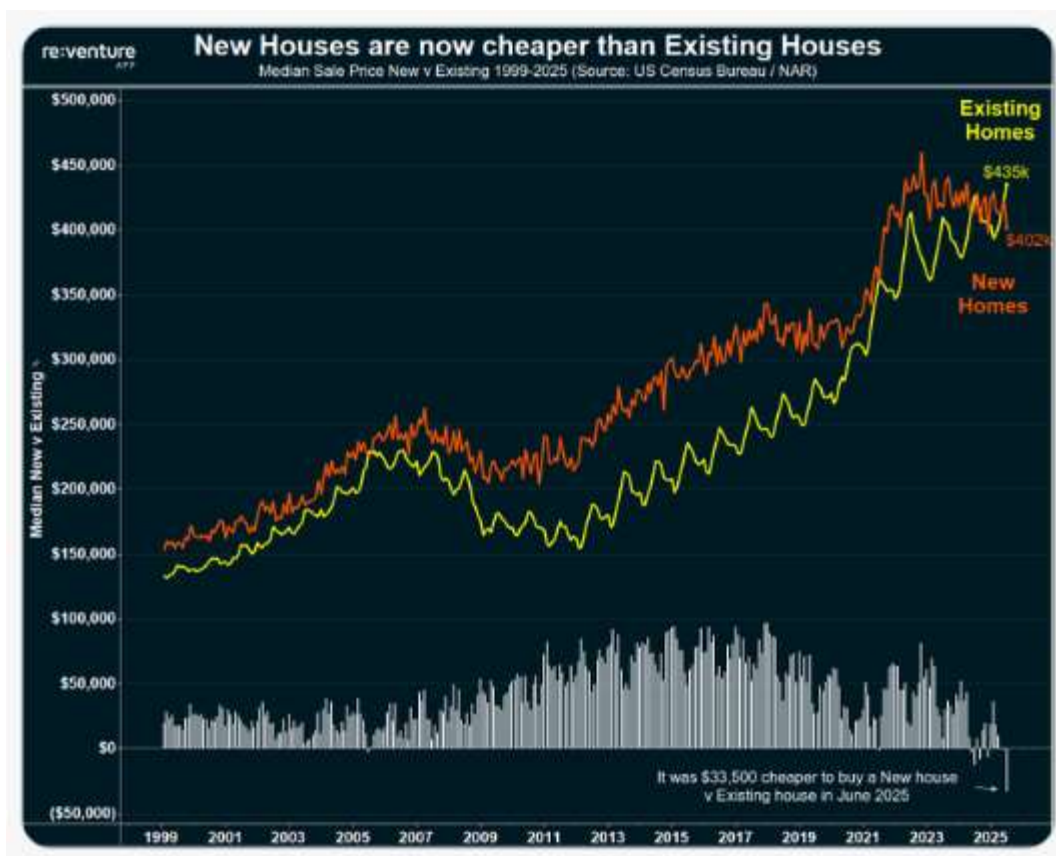
Import Prices increased +0.4% in July vs June. Some are pointing to this as proof of tariff inflation. We want to dig into this one a bit more.

➤ Retail Sales are still steaming along

Retail Sales increased +0.5% in July as expected. But June was revised *higher* from +0.6% to +0.9%. The Control Group (the subset of Sales that contributes to the GDP calculation...stripping out things such as Food Services, Auto Dealers, Building Materials Stores, Gasoline Stations, etc) also moved +0.5% higher. Expectations were a touch below this. And its June number was also revised higher from +0.5% to +0.8%. Motor Vehicles and Parts increased +1.6% (maybe tariffs, but we have looked at this anomalous data before...is it Used prices or New?) and Furniture +1.4% (probably higher prices through tariffs). Miscellaneous Store sales fell -1.7% (probably lower sales through tariffs) and Building Materials -1% (maybe tariffs).

Weekly Redbook Retail Sales increased 5.9%.

➤ Existing homes are more expensive than New homes. First time!



The Housing Market index (aka the homebuilder survey) dipped slightly (33 to 32). Current Sales at bad (flat at 35). 6-month Sales Expectations are ok and steady at 43. Traffic of Prospective Buyers increased two points but is still terrible (20 to 22).

Housing Starts in July increased over 5% to an annualized run-rate of 1.428mm (up from 1.358mm, which was revised higher from 1.32mm). Building Permits, however, fell about 3% (1.393mm to 1.354mm).

The average 30-year mortgage rate ticked up to 6.68%.

Weekly Mortgage Applications declined slightly.

➤ Other economic data is mixed

S&P's early read (Flash) on its Manufacturing PMI improved nicely and surprised to the upside (53.3 vs 49.8 in July and 49.5 expected). The Services PMI dipped a touch, but it is still strong and beat expectations (55.4 vs 55.7 in July and 54.2 expected).

The NY Fed's Empire Manufacturing index increased to its highest level in nine months (5.5 to 11.90).

The Philly Fed's Manufacturing index pulled back sharply (+15.9 to -0.3) in August.

Industrial Production in July fell -0.1% vs June

Initial Jobless Claims ticked down to 224k and then increased to 235k. Continuing Claims also moved lower and then back higher.

The index for Leading Economic Indicators was negative again (this one has been useless for a long time now).

The U-Michigan Consumer Sentiment (August) dipped to 58.6 from 61.7. This biased data is still up from the depths of April and May. But it is still near the bottom of the three year trend.

➤ Where did all the crypto money go?

We came across an offering for shares in the private crypto platform Kraken. We were intrigued...we think making money off people trading widgets is a sound business plan. But we noticed the fees associated with this investment. The agent (which just so happens to be a subsidiary spun out of Nasdaq...a weird arrangement for sure) takes 8% right off the top! This might not be as bad as the old Super Fund commercials with Christian Baha (something like 25% fees), but it is too rich for our blood!

➤ Chart Crime of the week

This one hits a little too close to home for us.



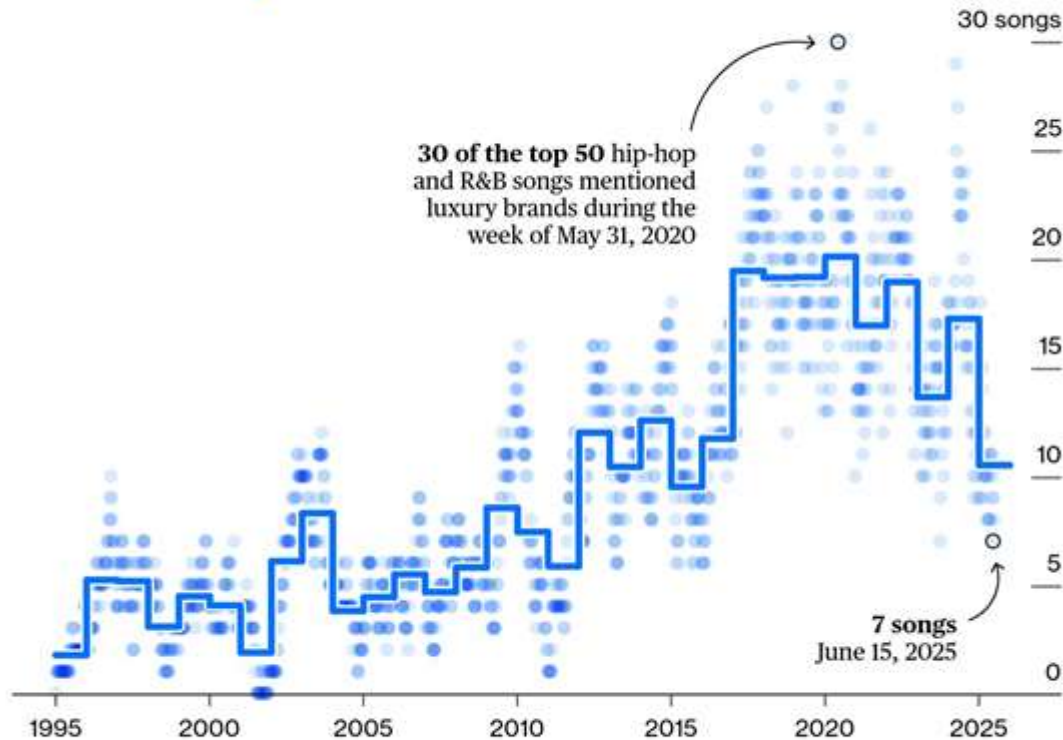
A Swedish golfclub got inspired after watching a major and put a trackman on 14th tee. Then posted this on their Facebook page

Chalk this one up in the “who cares” category:

## When Hip-Hop and R&B Name-Checked Luxury Fashion

Top-50 songs with at least one fashion or jewelry brand mention

○ Weekly mentions    / Annual average



Source: Bloomberg Opinion analysis of Billboard's weekly Hot R&B/Hip-Hop Songs and lyrics from Genius

Note: Analysis includes 90 fashion, leather goods, watch and jewelry brands. Data through June 29, 2025.

Bloomberg Opinion

Cracker Barrel is changing its logo. The stock tanked on the news. We might have to add "Logo Change" to our red flag list.



➤ Quick Hits

- A Philly man who was awarded \$4mm for being wrongly convicted and jailed for murder is back in jail for...murder.
- Flamethrowers are illegal in Maryland.
- The NBA is looking to expand (yawn).
- Roblox is banned in Qatar.
- Phil Mickelson has never been ranked #1 in the World Gold Rankings. He has been #2 for 270 weeks. The same player was ranked ahead of him for every single one of those weeks.
- Downtown Dallas has 9x more crime than downtown Fort Worth.
- Sound Hound revenue jumped due to its recognition of "unbilled receivables."
- The Texas Rangers (2023 World Champions) bullpen has the second lowest ERA in the league. It also has the second-most blown saves.
- The number of adult conversions to Catholicism in the US has more than tripled in four years (after collapsing for 20 years).
- Six former presidents of Peru are or have been in jail (this includes former president Garcia who killed himself before actually going to jail for corruption).
- The permit to build the new stadium for the Cleveland Browns has been denied by the Ohio Department of Transportation. The height of the proposed building is too tall given its proximity to the airport.
- The stock of Dominoe's Pizza has outperformed Google since the latter's IPO in 2004.
- Trains in New Jersey face disruption at a rate 6x of those in New York and Connecticut.
- Bed, Bath & Beyond is back. When the meme stock went bankrupt a few years ago, Overstock bought the brand name. Overstock changed its name to Beyond in an effort to boost the banner. Now Overstock is changing its name to Bed, Bath & Beyond and will be opening up brick and mortar stores. (Name Changes are one of our red flags.)
- Bed, Bath & Beyond announced it would no longer be operating in California.
- The king of the junky SPACs is back. Here is how Chamath sums up the risks in investing in his latest self-enrichment scheme: "If (retail investors) lose their entire capital, they will embody the adage from President Trump that there can be no crying in the casino."
- The son of the crown prince of Norway has been charged with 32 criminal counts including four rape charges.
- When asked about Fed Governor possibly committing mortgage fraud, St. Louis Fed President Schmid said filling out a mortgage application is too difficult.
- 53 batters hit over .300 in major league baseball in 2000. This year there are only eight.

**Trading:** We added some long exposure to small caps. We bought the dip in European defense. We added slowly to some AI names. We juggled some Consumer names (bought some weakness and sold some strength). We tweaked some of our macro exposures by adding Australia...and wait for it...we bought some Bitcoin!

**TSLAQ:** Musk has been very quiet when it comes to Tesla. Most of his energies seem to be focused on his Grok AI tool (mostly inside of X, but he hopes to change this). But Musk, of course, seems intent on speaking gobbly-gook instead of telling us what his AI bot can do better than the others (our casual use of it tells us it is pretty

good). To wit: “AI is obviously gonna one-shot the human limbic system. That said, I predict – counter-intuitively – that it will “increase” the birth rate! Mark my words.”

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